

United States Air Force and Life Assurance Scheme (UK) –Annual Engagement Policy Implementation Statement

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ('SIP') produced by the Trustees has been followed during the year to 5 April 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustees believe it is important to consider the engagement policies in place in the context of the overall investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

- To ensure that the Scheme can meet its obligations to members and other beneficiaries.
- To pay due regard to the Sponsoring Employer's position in relation to the size and incidence of the Sponsor's contribution payments.

Review of the SIP

During the year the Trustees reviewed the Scheme's SIP. A revised SIP was signed on 18 August 2020 and the SIP was subsequently published on a publically available website. The revised SIP was updated to reflect the new requirements under The Occupational Pension Scheme (Investment and Disclosure) (Amendment) Regulations 2019 relating to the following:

- How the arrangements with the asset manager incentivise them to align their investment strategy and decisions with the Trustees' policies in SIP.
- How the arrangements incentivise the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of asset manager's performance and the remuneration for asset management services are in line with the Trustees' policies mentioned in the SIP.
- How the Trustees monitor portfolio turnover costs incurred by the asset manager and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the arrangements with the asset managers.
- Financially material considerations, including Environmental, Social and Governance ("ESG") considerations, Stewardship, and explicitly Climate Change.

In addition to the above, the following changes were made to the SIP to reflect changes made to the Scheme's investment strategy.

- The allocation to equities was reduced from 60% to 50%, with a corresponding increase in the Scheme's allocation to bonds. Specifically, a 10% allocation to fixed interest gilts was introduced.
- The regional distribution of the equity portfolio was amended to reflect the reduction in the allocation to UK equities as a proportion of the Scheme's total equity market exposure.
- The rebalancing policy was amended to reflect the suspension of automatic rebalancing.

The Trustees keep their policies under regular review with the SIP subject to review at least triennially or upon any significant changes to the investment strategy.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on ESG factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to voting rights and stewardship.

The following work was undertaken during the year under review in relation to the Trustees' policy on ESG factors, stewardship and climate change, in particular focusing on how the Trustees' engagement and voting policies were followed and implemented during the year.

ESG Enhancements

The Scheme's investment manager, State Street Global Advisors ("SSGA"), has introduced a number of ESG enhancements across the range of passive equity and bond funds in which the Scheme invests. The enhancements involve the exclusion of issuers who violate the United Nations Global Compact, as well as those who are involved in the production of controversial weapons.

Engagement

An investment performance report is reviewed by the Trustees on a quarterly basis. This includes the investment consultants general and ESG specific ratings for the strategies in which the Scheme invests. SSGA are highly rated by the Trustees' investment consultant with regard to the extent to which ESG factors are incorporated into investment decision making. Should any of the investment consultant's ratings be downgraded, the Trustees would review the reasons for the change. The Trustees might also decide to engage with the investment manager to understand if the manager's ESG policies are still aligned with the Trustees' policies. No such review was required over the year under review.

The Trustees also reviewed SSGA's annual stewardship report. The report confirmed that in 2020, SSGA engaged with 1,721 investee companies, accounting for 78% of SSGA's equity assets under management. SSGA had successful engagements across various themes, including Board effectiveness and diversity, company culture, executive compensation, climate risk and human capital management.

When implementing any new investments or manager appointments, the Trustees will consider how ESG factors are taken into account within the manager's decision making process, with help from the investment consultant. The Trustees did not appoint any new managers over the period.

Voting Activity

The Trustees have delegated their voting rights to SSGA.

SSGA are expected to provide voting summary reporting on a regular basis, at least annually. The reports are reviewed by the Trustees to ensure that they align with the Trustees' policy.

The key voting data over the 12 months to 31 March 2021 that has been carried out on behalf of the Trustees is presented below:

SSGA Fund	Europe (Ex-UK) Equity		Japan Equity		North America Equity		Asia Pacific (Ex-Japan) Equity		UK Equity	
Votable Proposals	9,311		6,223		8,395		3,122		10,486	
Proposals Voted	9,244	99.28%	6,223	100.00%	8,395	100.00%	3,122	100.00%	10,486	100.00%
Votes Against Management	1,037	11.14%	521	8.37%	807	9.61%	529	16.94%	902	8.60%

Source: SSGA